

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 TRSE-00 FRB-03 INR-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2334

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

C O N F I D E N T I A L LONDON 07641

LIMDIS GREENBACK

PASS TREASURY FOR F. L. WIDMAN; FRB

E. O. 11652: XGDS

TAGS: EFIN, UK

SUBJECT: RESULTS OF EC FINANCE MINISTERS MEETING AND
OTHER RELATED SUBJECTS

1. A. UK SOURCE TELLS US THAT THERE WAS NO EFFECTIVE
PRIOR CONSULTATION BETWEEN GERMANY AND EC PARTNERS ON
DM REVALUATION. ACCORDING SOURCE, FINANCE MINISTER

SCHMIDT DID NOT ATTEND EC FINANCE MINISTERS MEETING AND
UK BELIEVES HEAD OF CENTRAL BANK KLAUSEN WOULD HAVE
PREFERRED INDEPENDENT DM FLOAT. SUCH CORRIDOR DIS-
CUSSIONS AS THERE WERE AT EC FINANCE MINISTERS MEETING
DID NOT CONSIDER THAT DM WAS IN ANY WAY IN FUNDAMENTAL
DISEQUILIBRIUM OR UNDERVALUED. SINCE MARKET PUSHED UP
THE DM RATE AND OTHER CURRENCIES IN SNAKE, GERMAN DE-
CISION WAS PROBABLY CORRECT, BUT COULD BE REVERSED.

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1. B. PRESS HAVE REPORTED THE STORY INACCURATELY
ASSUMING THAT THERE WAS EXTENSIVE PRIOR CONSULTATION.
UK FOUGHT OFF QUOTE RIDICULOUS PROPOSALS UNQUOTE
THAT EC SHOULD HAVE HELD MEETINGS LAST WEEK TO SANCTIFY
THE REVALUATION, WHICH WOULD HAVE SHOWN HOW LITTLE
PRIOR CONSULTATION ACTUALLY TOOK PLACE.

2. THERE WILL BE A MEETING IN ROME LATER THIS WEEK
WITH DELEGATES FROM EC CAPITOLS TO FORMALLY REVIEW
AND APPROVE ITALIAN CREDIT LINE FROM EUROPEAN MONETARY
COOPERATION FUND (ECMF).

3. THERE WAS CONSIDERABLE DUTCH AND GERMAN OPPOSITION
TO EC PROPOSAL TO GRANT ECMF ADDITIONAL CREDIT
FACILITIES. MANY MEMBERS ARE RELUCTANT TO POOL ANY
RESERVES OTHER THAN DOLLARS. UK IS NOT OPTIMISTIC ON
EITHER COUNT.

4. BASED ON MOST RECENT INTERNAL PROJECTIONS, UK
CONSIDERS THAT CURRENT ACCOUNT WILL BE IN BALANCE BY
1975. UK ANTICIPATES THAT J CURVE EFFECTS OF
JUNE 1972 FLOAT WILL BE SPREAD OVER FIVE YEAR PERIOD,
WITH MOST FAVORABLE IMPORT EFFECTS BEING FELT AFTER
18-24 MONTHS, MOST FAVORABLE EXPORT EFFECTS COMING
AFTER 30-36 MONTHS.

5. AT RECENT EC MEETINGS THERE HAS BEEN CONSIDERABLE
PREOCCUPATION ABOUT SIZE OF EXPECTED US TRADE SURPLUS
IN 1976.

ANNENBERG

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*** Current Handling Restrictions *** LIMDIS

*** Current Classification *** CONFIDENTIAL

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